

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

**Application of Milwaukee Water Works, Milwaukee
County, Wisconsin, for Authority to Increase Water
Rates**

3720-WR-107

SURREBUTTAL TESTIMONY OF KATHLEEN BUTZLAFF

August 5, 2010

1 **Q. Please state your name.**

2 A. My name is Kathleen Butzlaff.

3 **Q. Did you previously provide direct, rebuttal, and supplemental direct testimony in**
4 **this docket?**

5 A. Yes, I did.

6 **Q. What is the purpose of your surrebuttal testimony?**

7 A. I will address the level of the property tax equivalent expense, also known as a payment
8 in lieu of taxes, brought up in the rebuttal testimony of several witnesses for the
9 wholesale customers. Milwaukee Water Works (MWW) estimated this expense at
10 \$9,500,000 in the revised rate application filed June 1, 2010. I accepted this estimate for
11 the test year.

12 **Q. What is the basis for this estimate?**

13 A. Using the projected tax rates and assessment ratio for 2010, MWW calculated the
14 property tax equivalent expense at \$10,438,998 on Attachment 9 in the revised rate
15 application. Reflecting that the City of Milwaukee has set the 2010 amount at a lower
16 level, MWW then reduced the test year estimate to \$9,500,000 on Attachment 8.

1 **Q. How can the property tax equivalent be calculated at one amount but then set at a**
2 **different level by the City?**

3 A. The property tax equivalent payment is authorized by Wis. Stat. § 66.0811(2) and further
4 defined in Wis. Admin. Code ch. PSC 109. In 1995, the state legislature amended Wis.
5 Stat. § 66.0811(2) to allow the municipality to authorize a lower property tax equivalent
6 payment than the calculation. The City has chosen to set the 2010 payment at the lower
7 amount of \$9,500,000.

8 **Q. Both James Wojcehowicz and Thomas Schrader testify that the property tax**
9 **equivalent expense is unreasonably high. Do you believe that MWW reasonably**
10 **estimated this expense?**

11 A. Yes, MWW has estimated the expense according to the applicable statute and code. Mr.
12 Wojcehowicz states that the expense paid to the city is higher than what the amount of
13 property taxes paid to the city would be, based on the city tax rates. This is correct.
14 Wisconsin Admin. Code PSC § 109.02 requires that both local and school tax rates be
15 used to calculate the maximum payment. Mr. Schrader states that the property tax
16 equivalent is unreasonable because it is significantly higher than the gross receipts tax
17 that would be paid by a private utility. While it is true that MWW's property tax
18 equivalent payment is higher than the gross receipts tax would be if MWW was a private
19 utility, the amount is based on statutory and code requirements.

20 Mr. Schrader goes on to state, "MWW should not be allowed to claim a utility
21 expense that it did not actually incur." (SR 2.124.) MWW does incur this expense as it
22 must pay the amount to the City on an annual basis. MWW's property tax equivalent
23 payment is 10.9 percent of its \$87,166,899 revenue requirement for the test year.

1 **Q. Does this complete your surrebuttal testimony in this proceeding?**

2 A. Yes, it does.

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4 KAB:w:water\butzlk\rate case exhibits\Milwaukee 3720-WR-107 surrebuttal testimony

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